Health Center Facility
Loan Guarantee Program
Instructions

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Chapter 1: Introduction, Eligibility, Loan Information, and the Guarantee

Introduction

Purpose and Overview

The purpose of the Health Resources and Services Administration (HRSA) Health Center Facility Loan Guarantee Program (LGP) is to support Health Center Program awardees in their efforts to access capital funding and reduce financing costs for the alteration/renovation, construction or expansion of a HRSA-funded health center medical facility.\(^1\) Federal loan guarantees often enable health centers to obtain a lower interest rate than would be otherwise available.

HRSA is authorized by Title XVI of the Public Health Service Act (42 U.S.C. 300q et seq.) to guarantee the principal and interest on certain loans made by non-federal Lenders. HRSA plans to exercise this authority by guaranteeing up to 80 percent of the outstanding principal and interest on eligible health center loans.\(^2\) Guarantees under the LGP are subject to 45 CFR part 75 to the extent that its provisions apply to HRSA loan guarantees (see 45 CFR 75.101(b)(1)).

The LGP is not a HRSA loan or grant program. Guarantees under the LGP will be subject to the terms and conditions of the specific loan guarantee, but generally may be used to support capital projects at a new or existing health center medical facility site within the applicant’s Health Center Program-approved scope of project.

Applicants may obtain additional information by contacting the LGP at LGProgram@hrsa.gov or 301-594-4300.

Loan Guarantee Program Eligibility

Applicant Eligibility

Eligible applicants for the HRSA LGP are health centers, as defined under section 330 of the Public Health Service Act (42 U.S.C. 254b), that receive Health Center Program funding (under sections 330(e), (g), (h), and/or (i)) at the time of both application for and issuance of a loan guarantee.\(^3\)

\(^1\) Statutory definitions applicable to activities authorized by Title XVI of the PHS Act are at 42 U.S.C. 1624. Medical facilities are defined as service delivery sites on a health center’s approved Form SB.

\(^2\) Loan guarantees are subject to the Office of Management and Budget (OMB) Circular A-129, which requires private Lenders to bear at least 20 percent of the loss from a default.

\(^3\) Entities that do not receive Health Center Program funding, including look-alikes, are not eligible for the LGP.
Lender Eligibility

Eligible Lenders include non-federal Lenders that are subject to regulation, examination, and supervision by an appropriate banking regulator, as well as Community Development Financial Institutions (CDFI) certified by the U.S. Department of the Treasury. For more information about CDFIs, please visit the Community Development Financial Institutions Fund website. To participate in the LGP, Lenders must not currently be debarred or suspended from participation in government programs or delinquent in a government debt. All eligible Lenders must agree to service the loan, hold the unguaranteed portion (20 percent) of the loan, and participate in monitoring and reporting activities throughout the life of the loan, as required by HRSA. Please reference the Reporting Requirements section for more information.

Loan Guarantee Parameters

Eligible project costs and financing

HRSA may guarantee loans that support certain capital project costs incurred by health centers including the following activities:

- Alteration/renovation (A/R): A/R projects may include work to modernize, improve, and/or reconfigure the interior arrangements of an existing facility; work to improve and/or replace the exterior envelope (i.e., roof, exterior doors, windows, and walls); work to improve accessibility (such as sidewalks and ramps), and/or life safety requirements according to applicable code (i.e., fire/sprinkler system, ramps, stairways) for an existing facility. An A/R project would not increase the total square footage of an existing facility, and would not require ground disturbance or footings. A/R projects subject to a loan guarantee may include the purchase of related moveable equipment or acquisition of an existing facility.

- Construction/expansion (C/E): C/E projects may include constructing a new stand-alone structure and/or associated work required to expand a structure to increase the total square footage of a facility. A C/E project may also include acquisition or improvement...
of land or an existing facility. C/E projects may include installing a permanently affixed modular or prefabricated facility and/or the purchase of related moveable equipment.

Acquisition of land or existing facility purchases may also be eligible if they are an authorized part of a C/E and/or A/R project under a HRSA loan guarantee. HRSA guarantees are not eligible for use with tax-exempt bonds.

**Loan terms and conditions**

HRSA expects that loan amounts will vary and that loan terms and conditions will be unique for each loan or financing transaction. Therefore, the LGP does not prescribe maximum or minimum loan amount limits or specific loan terms or conditions applicable to all loan guarantees.

In order to protect the government’s fiscal interests in serving as a loan guarantor, HRSA may take into account the adequacy of collateral for the loan agreement in determining whether or not to approve a guarantee. Collateral, for this purpose, may include the proposed C/E or A/R project as well as assets other than those directly financed by the guaranteed loan. If Lenders determine that collateral is not required for a loan, then they must describe, in the [Lender’s Comprehensive Credit Analysis (attachment)](attachment) referenced in this document, the reasons for this determination. Of note, this determination may not be solely based on the existence or possibility of the LGP guarantee.

**Lender servicing and monitoring requirements**

All eligible Lenders must agree to service the loan and participate in monitoring and reporting activities throughout the life of the loan. The originating Lender for a HRSA-guaranteed loan must hold the unguaranteed portion (20 percent) of the loan and must monitor the progress of the C/E or A/R activities to ensure that the project is being developed in accordance with approved plans, specifications, contract documents, and applicable state, local, and federal requirements. In addition, health centers with HRSA loan guarantees are required to provide information and data to HRSA on the loan and the operating performance of the site throughout the life of the loan. For more information, see the Monitoring section.

**Loan Guarantee Process**

Potential LGP applicants are encouraged to contact HRSA while considering and planning eligible capital infrastructure projects. The HRSA LGP application process consists of the following phases: Pre-Application Consultation, Application Review, and Loan Closing. For more detailed information on requirements and documents necessary for each phase, see the Application Requirements section.

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8 Acquisition of land must result in the construction or installation of a health center medical facility. Applicants must add a new service delivery site to their Health Center Program scope of project through a CIS request if the new service delivery site is not already within the HRSA-approved Scope of Project (consistent with Form SB: Sites).
• **Pre-Application phase:**
  - **OPTIONAL Technical Assistance (TA)** and general information on the LGP process is available for health centers before they begin preparing an application. The provision of TA does not mean or ensure that a health center’s LGP application will be approved by HRSA.
  - An applicant must submit an **Environmental Information Documentation (EID) checklist** and **basic project information** for HRSA to review in order to identify specific environmental issues and project information that must be addressed in the full application. Targeted TA is available for applicants regarding the environmental information included in the EID checklist.

• **Application Review phase:**
  - HRSA will conduct **programmatic, environmental, architectural/engineering (A/E) reasonableness, and financial sustainability and viability** reviews of each complete application.
  - HRSA will schedule and conduct an **on-site review** to confirm the information provided in the LGP application and meet with representatives from the health center and the Lender.
  - Pending the satisfactory completion of all reviews, under a preliminary approval, HRSA will issue to the health center a “**Loan Guarantee Commitment Letter,**” which summarizes key loan terms and provisions from the Lender’s Commitment Letter, sets the maximum guarantee amount, restates the closing conditions, and addresses other breach and default terms. While not legally binding until the loan closing, this letter is a conditional commitment for a guarantee to be issued at the closing date when the applicant has satisfied all HRSA requirements and met the Lender’s closing conditions.

• **Loan Closing Phase:**
  - Prior to the **Loan Closing phase**, the Lender will negotiate the final loan terms with the applicant, subject to HRSA approval.
  - The Lender will manage the closing process and coordination of the loan closing with the applicant. The Lender will provide all financing documents (e.g., loan and security agreement, promissory notes, security instruments) containing terms and conditions unique to each loan or financing transaction (e.g., interest rates, repayment terms, and collateral), which will be based on the applicant’s historical and projected operating performance and reflect current market conditions. Interest rate calculations must be based on publicly available/published indices.
  - HRSA will provide the following standard documents at closing:
- **Loan Guarantee Agreement:** the agreement between the Lender and HRSA that governs the guarantee, the loan closing and disbursement, the default events and cure periods, describes the process for issuing a guarantee demand, and sets forth the Lender’s reporting requirements and obligations to service the loan.

- **Applicant (Borrower)’s Agreement with Guarantor:** the agreement between HRSA and the applicant that defines HRSA’s requirements in the event of a loan default, and when those rights may be exercised.

Before the closing date, the Lender will submit a **Lender’s Certification** enclosing all documents necessary for closing. HRSA will review the Lender’s Certification and supporting documents to ensure the documentation is complete and meets the **Lender Certification Requirements**. Concurrent with HRSA’s review, the Lender will review HRSA’s standard documents governing the loan guarantee, as cited above (Loan Guarantee Agreement and Applicant (Borrower)’s Agreement with Guarantor).

On the closing date, the Lender, HRSA, and the health center will execute and deliver all documents necessary for the financing and the guarantee. This enables all loan funds to be released under a disbursement schedule agreed upon by the Lender and health center in the finance documents. For more information, please reference the **Loan Closing** section.
The following is a depiction of the HRSA LGP process.
Chapter 2: Application Requirements and Application Review Information

Application Requirements

**OPTIONAL: Pre-application Consultation**

The pre-application consultation phase is intended for health centers to: (i) inform HRSA that they are interested in applying to the LGP; (ii) receive targeted TA about applying to the LGP; (iii) outline a timeline for obtaining financing; and (iv) prepare to submit a complete application to HRSA. While this consultation phase is not mandatory, applicants should provide the following information to HRSA on the scope of project and financing needs: 1) the project type (e.g., new construction, renovation, new site, replacement facility); 2) total project cost; 3) financing needs; 4) potential Lender(s); and 5) timeline and status of project planning and financing. Applicants may submit this information via email to LGProgram@hrsa.gov.

Please visit the LGP TA website for additional resources to support LGP application preparation.

**Preliminary Review of EID Checklist**

Applicants are required to initiate an environmental review of proposed projects prior to submitting a complete application to HRSA. The benefits of identifying specific environmental project information prior to submitting a complete application are to expedite the review, ensure that any required reports or consultations are complete in a timely fashion to avoid delays in issuing a loan guarantee, understand the potential costs involved in mitigating environmental issues, which may impact the project budget, and avoid any delays in closing the project financing.

To begin a pre-application preliminary environmental review, **applicants must submit a completed and signed EID checklist to LGProgram@hrsa.gov**. The EID checklist captures information that HRSA is required to obtain to determine if the proposed project may have a significant impact on the environment, pursuant to the National Environmental Policy Act of 1969 (NEPA). Specifically, the checklist helps HRSA identify specific aspects of proposed activities that would potentially affect the environment. The EID checklist will also be reviewed under the terms of Section 106 of the National Historic Preservation Act (NHPA). Section 106 requires that an assessment must be made of the potential effects of undertakings on historic properties (which include any prehistoric or historic district, site, building, structure, or object), that are eligible for listing or are listed on the National Register of Historic Places (NRHP). Applicants may also submit any reports, inspections, and surveys that have already been prepared along with the EID checklist.

HRSA will review the EID checklist, and if it determines that the project may have a significant impact on the environment, HRSA will require that the applicant submit a NEPA Environmental
Assessment report with the complete LGP application. Additionally, if HRSA determines that Section 106 of the NHPA applies to the project, the applicant will be required to obtain documentation from the State Historic Preservation Officer (SHPO), Tribal Historic Preservation Officer (THPO), representatives of the local government, and other affected Indian tribes and interested parties.

Requirements for a Complete Application

HRSA reviews complete and eligible LGP applications on a rolling, year-round basis in the order in which they are received. Applications that do not include all applicable documents identified below will be considered incomplete and will not be further reviewed. HRSA will return the application and notify the health center, which may delay processing of the LGP application.

A complete LGP application will include all of the following, as applicable (more detailed instructions on each required attachment/document follow):

- Application form (available on the LGP TA website)
- NEPA Environmental Assessment Report (if applicable)
- NHPA Section 106 documentation (if applicable)
- Lender’s statement describing the value of the HRSA loan guarantee to the applicant and the project (Lenders may submit to HRSA on behalf of the health center)
- Lender’s commitment letter (Lenders may submit to HRSA on behalf of the health center)
- Lender’s comprehensive credit analysis (Lenders may submit to HRSA on behalf of the health center)
- Three years of audited financial statements\(^9\)
- Year-to-date balance sheet and income statement
- Three years of historical visit volume and patient services payer mix\(^{10}\)
- Project development due diligence
- Appraisal for owned and leased properties
- Additions to current scope of project (if applicable)

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\(^9\) If the health center has not been in operation for at least 3 years, provide the most recent audited financial statements.

\(^{10}\) If the health center has not been in operation for at least 3 years, provide data on visit volume and patient services payer mix for each year the health center has been in operation.
Application form
The application form, available via the Electronic Handbooks,\textsuperscript{11} contains the following sections:

- Part A. Applicant’s contact information. Enter organization’s legal address, Health Center Program (H80) grant number, and Tax ID.
- Part B. Lender’s contact information. Enter address of Lender’s primary location, Tax ID, and certification that the Lender and its principals are not disbarred or suspended from participation in a government contract or delinquent in a government debt.
- Part C. Loan information. Enter the loan amount, term, interest rate, amortization period, and collateral.
- Part D. Project description. Provide a detailed description of the construction/expansion (C/E) or alteration/renovation (A/R) project, including the following:
  - The project type (e.g., C/E, A/R, and, if applicable, land or building acquisition);
  - The proposed health center medical facility, including the square footage of the specific area(s) to be improved, the total square footage of the project, the number and type of clinical spaces (if applicable), the staff spaces and support spaces to be added or improved, and any other major facility improvements;
  - The proposed health center medical facility location address and whether or not the site is in scope (consistent with Form 5B). Note: If the proposed site is not in the approved scope of project, an applicant must submit a CIS request through the Electronic Handbooks (EHBs) while simultaneously submitting the LGP application (for more information, please see \textit{Additions to Current Scope of Project} on page 15; Evidence of site control for owned, leased, or to be purchased property (e.g., lease, deed, etc.);
  - Scope of services to be offered and the market to be served (if applicable);
  - Market demand for the project, competition in the market, and community ties to the area;
  - Development status and timeline; and
  - Bios of the development team members (internal and external).
- Part E. Project funding sources and uses. Select the applicable use (e.g., hard/soft costs, contingency, furnishings, equipment, fees, and expenses) and the amount allocated for each. Also select the funding sources (Guaranteed loan, Applicant’s funds on-hand, or Other) and the amounts in-hand or committed, as well as any use restrictions.

\textsuperscript{11} A sample application form is also available on the Health Center Facility Loan Guarantee Program website.
- Part F. Organization description. Provide a one-page narrative description of the applicant’s history, programs, and services.

- Part G. Management and governance. List members of senior leadership and bios for each, including length of employment. Also list the Board of Directors/Officers/Standing Board Committees and include bios for the Board Chair and Finance Committee Chair.

- Part H. Financial/operating projections. Provide projections for the applicant’s operations as a whole and for the proposed health center medical facility broken out, with a description of the underlying assumptions. Detailed projections should be provided for each year of the loan term (at least 3 years) and include anticipated revenue, patient visit volume, expenses by line item, and FTEs by position for each year.

**NEPA Environmental Assessment Report (if applicable)**

Provide a NEPA Environmental Assessment report with the LGP application if HRSA determines that this report is required after reviewing the EID checklist submitted during the pre-application phase. Please note that this report is not a Phase I Environmental Site Assessment (ESA), which relates only to the requirements of the Comprehensive Environmental Review, Compensation and Liability Act (CERCLA, commonly known as Superfund), pertaining to hazardous substances. The applicant should ensure that its consultants preparing this study are aware of the distinction in order to save time and resources.

For additional information, please reference the *National Environmental Policy Act and Historic Preservation (NEPA/HP) Review* section of these Instructions.

**NHPA Section 106 documentation (if applicable)**

Provide documentation from the SHPO, THPO, representatives of the local government, and other affected Indian tribes and interested parties for projects that require review under Section 106 of the NHPA. HRSA will request this documentation after reviewing the EID checklist submitted during the pre-application phase. Documentation from the SHPO/THPO must confirm whether the property:

- Is not historic; or
- Is historic, with the project causing no potential adverse effects; or
- Is historic and the project may cause adverse effects, and provide a resolution to the adverse effects through a fully executed Memorandum of Agreement finalized by all parties.

For additional information, please reference the *National Environmental Policy Act and Historic Preservation (NEPA/HP) Review* section of these Instructions.
Lender’s statement describing the value of the HRSA loan guarantee to the applicant and the project

Provide a one-paragraph statement from the Lender that describes how the guarantee benefits the Borrower (i.e., applicant) and the overall project.

Lender’s commitment letter

Provide a commitment letter from the Lender that includes the following:

- Willingness to provide financing if a guarantee is granted;
- Interest rate, and whether the interest rate is fixed or variable;
- Loan terms and conditions;
- Amortization of loan;
- Payment schedule and structure (e.g., frequency of payment, level of payment, level of principal, interest-only period);
- Loan-to-value requirements;
- Equity requirements;
- Collateral requirements\(^\text{12}\); and
- Covenants.

Lender’s comprehensive credit analysis

Provide a comprehensive Lender credit analysis that includes an assessment of any risk associated with their making the loan.

Three years of audited financial statements

Provide copies of the applicant’s 3 most recent years of audited financial statements. If the health center has not been in operation for at least 3 years, provide the most recent audited financial statements.

Year-to-date balance sheet and income statement

Provide copies of the applicant’s year-to-date balance sheet and income statement.

Three years of historical visit volume and patient services payer mix

Provide a historical visit volume and patient services payer mix by revenue source for the health center for the most recent 3 years. Applicants must provide the most current data, including

\(^{12}\) HRSA encourages Lenders to require collateral from health centers in securing a loan, which is typically assets other than those directly financed by the guaranteed loan. If Lenders determine that collateral is not necessary for a loan, then they must describe reasons for not requiring collateral in the Lender’s Comprehensive Credit Analysis (attachment) referenced in this document. Reasons for not requiring collateral must not include HRSA’s potential loan guarantee.
but not limited to information that is available in the Uniform Data System (UDS) in the EHBs. If the health center has not been in operation for at least 3 years, provide data on visit volume and patient services payer mix for each year the health center has been in operation.

**Project development due diligence**

Provide documentation evidencing project due diligence, to include:

- Schematic design plan;
- Contractor name and experience, if selected, or status of selection (if available); and
- Status of Regulatory and Building Department approvals (if available).

**Appraisal for owned and leased properties (as-built, as warranted)**

Provide a copy of an as-built appraisal value for the property that is subject to the loan, taking into account planned construction and improvements to be made by the applicant (Borrower).

**Additions to current scope of project (if applicable)**

Provide information on a new service delivery site if it is not already in the applicant’s HRSA-approved scope of project (consistent with Form 5B: Sites). For any proposed site not already in the approved scope, applicants must submit a CIS request through the EHBs while simultaneously submitting the LGP application. (Please see the Health Center Program [Scope of Project website](#) for additional information on the CIS request process.) Applicants are strongly encouraged to begin this process as soon as possible and notify the LGP during the pre-application consultation phase that it plans to conduct C/E or A/R activities on a new site that needs to be added to its scope. HRSA will consider the request to add this new site as part of the review of the LGP application. Proposed new service delivery sites will undergo a concurrent evaluation by HRSA to determine whether the requested change is appropriate given the existing need and/or federal resources in the proposed community.

If the proposed service delivery site is approved and added to scope, the applicant will receive a Notice of Award with a scope verification task in the EHBs. Because LGP capital projects often have a longer completion timeframe, HRSA would provide a scope verification deadline that allows for additional time beyond the standard 120-day verification deadline for CIS requests. The applicant will be expected to submit a complete scope verification after the capital project has been completed and the site is operational. See [PAL 2011-07](#) for more information on extending the verification deadline for CIS requests.

**Application Review**

**HRSA LGP Application Review Components**

HRSA reviews complete and eligible LGP applications on a year-round basis in the order in which they are received. The review consists of the following components:
1) Programmatic review: HRSA verifies the applicant’s eligibility (must be a current Health Center Program awardee) and assesses Health Center Program requirement compliance status.

2) Architectural/engineering (A/E) reasonableness review: HRSA reviews the proposed C/E or A/R project’s architectural plans and specifications, and associated cost estimates and budgets.

3) NEPA and historic preservation (NEPA/HP) review: HRSA reviews the C/E or A/R project’s anticipated environmental impact subject to NEPA/HP requirements.

4) Financial/sustainability review: HRSA reviews the Lender’s commitment letter, credit analysis, and underwriting and determines the viability of the project and the applicant’s organizational capacity and operating and financial performance.

5) On-site review: HRSA conducts an on-site analysis after the initial desk review of the application, to tour the applicant’s proposed project site; meet with the applicant’s management, board, and Lender; and confirm the findings of the programmatic review, A/E reasonableness review, NEPA/HP review, and financial/sustainability review.

In general, depending on the scope and complexity of the proposed capital project, it takes at least 60 days to adequately review and process a LGP application and issue a Guarantee Commitment Letter.

Application Review Criteria

1. Programmatic Review

As part of the programmatic review, HRSA verifies the applicant’s eligibility and assesses Health Center Program requirement compliance status. The eligibility review is an assessment and confirmation that the applicant is receiving Health Center Program funding at the time of application and issuance of the loan guarantee. The programmatic review is an assessment of an applicant’s compliance with Health Center Program requirements in order to assist HRSA in determining the potential risks associated with the project and how a health center’s compliance status may expose the guaranteed loan to potential default. HRSA will review to determine if any of the following exist on the applicant’s current H80 award prior to HRSA’s approval of a loan guarantee:

- The applicant has one or more conditions on its current Health Center Program grant related to Health Center Program requirement area(s) that are in the 30-day phase of Progressive Action; or
- The applicant has been awarded a one-year project period on its current Health Center Program (H80) grant because of non-compliance with any Health Center Program requirements.

These factors will be taken into consideration along with the architectural/engineering reasonableness, NEPA and historical preservation, and financial/sustainability reviews to determine project viability and potential to expose the guaranteed loan to potential default.
Therefore, HRSA strongly encourages applicants to maintain continuous compliance and to resolve any Health Center Program progressive action conditions as quickly as possible.


HRSA reviews the project’s architectural plans and specifications and associated cost estimates and budgets specified in the application form (Part D. Project Description, and Part E. Project funding uses and sources) and the project development due diligence attachments (e.g., schematic design plan, contractor name and experience, and status of regulatory and building department approvals) to ensure A/E reasonableness. The A/E reasonableness review includes:

- Assessing schematic plans to ensure that they reflect the applicant’s description of the square footage of the specific area(s) to be improved, the clinical (if applicable) and staff/support spaces to be added or improved, and other major facility improvements;
- Reviewing these plans against the project costs or estimated funding uses and sources to ensure reasonableness in carrying out the C/E or A/R project; and
- Assessing the project timeline needed to complete final designs, obtain regulatory approvals, and commence the C/E or A/R work within a reasonable timeframe.

3. NEPA and Historic Preservation (NEPA/HP) Review

HRSA reviews a NEPA Environmental Assessment report submitted with the LGP application if the proposed capital project may have a significant impact on the environment. The National Environmental Policy Act of 1969 (NEPA), 42 U.SC 4321 (P.L. 91-190, Sec. 2, Jan. 1, 1970, 83 Stat., 852), including Public Disclosure, Section 102 of NEPA, and EO 11514, NEPA requires federal agencies to assess the environmental impacts of major federal actions. These include construction projects supported in whole or in part through federal contracts, grants, subsidies, loans, or other forms of funding assistance. A NEPA Environmental Assessment is often required for projects involving new construction, expansion of an existing facility, or extensive alteration and renovation of a facility. The NEPA Environmental Assessment report is a comprehensive study that identifies environmental impacts of a land development action and analyzes a broad set of parameters, including biodiversity, environmental justice, wetlands, air and water pollution, traffic, geotechnical risks, public safety issues, and hazardous substance issues. Based on its review of the report, HRSA will determine if there is a Finding of No Significant Impact (FONSI) or if additional review is required.

HRSA will also review proposed capital projects under the terms of Section 106 of the NHPA. Under Section 106, prior to commencing work outside of purchasing moveable equipment, engaging architectural and engineering services, or acquiring necessary licenses, permits, and other approvals for the project, a notification/consultation must take place with all interested parties. Pursuant to the regulations at 36 CFR Part 800, HRSA determines the project’s effect on historic properties in consultation with the SHPO, THPO, representatives of the local government, and other affected Indian tribes and interested parties. HRSA has determined that the following activities constitute an undertaking under the NHPA:

1) All new construction and expansion projects (including demolition of existing buildings);
2) Alteration/renovation/repair projects where exterior changes to the building façade or surroundings (such as grading, fencing, or additional parking) may be made (including roof, windows, and parking lots); and

3) Interior renovations made to a building that is more than 50 years old or is historically, architecturally, or culturally significant.

For more information, please visit the Environmental and Historic Preservation TA website and reference the Administrative and Policy Requirements section of these Instructions.

4. Financial/Sustainability Review

**Lender’s Commitment Letter**

HRSA reviews the Lender’s proposed terms for reasonableness in conjunction with the applicant’s operational and financial projections for the completed health center medical facility. At a minimum, HRSA will review the reasonableness of the following:

- Proposed interest rates (fixed or variable);
- Terms and conditions;
- Loan amortization;
- Repayment schedule and structure (e.g., frequency of payment, level of payment, level of principal, interest-only period);
- The Lender’s loan-to-value requirements, equity requirements, and collateral requirements; and
- Lender covenants.

**Lender’s Credit Analysis and Underwriting**

HRSA reviews the Lender’s credit analysis and underwriting of the proposed financing to ensure that the Lender has made an appropriate assessment of any risk associated with making the loan. HRSA includes its review of the Lender’s credit analysis in making determinations about the appropriateness of the loan, and will obtain any additional information necessary to evaluate the LGP application while conducting its internal review of organizational capacity, project viability, operating and financial performance, and during the on-site review (see below).

**Organizational Capacity**

HRSA reviews Part G. Management and Governance from the application form to evaluate:

- **Management’s qualifications and capabilities.** HRSA assesses management’s credentials, length of experience and employment with the health center, stability and capacity to address leadership turnover, organizational structure and achievements, strategic planning and preparation for industry changes, and level of community support and engagement.
• **Board composition and qualifications.** HRSA reviews Board minutes and interviews members to assess the Board’s involvement and understanding of the proposed new health center medical facility project development and the projected loan obligations.

**Operating and Financial Performance**

HRSA examines 3 years of the applicant’s audited financial statements, unaudited interim statements, historical visit volume and patient services payer mix from UDS, HRSA site visit reports, and other operational and financial data provided to assess the applicant’s financial performance. Additionally, HRSA examines trends, challenges, and issues and management’s response to those events.

**Project Viability**

Project viability is a key component of the LGP review. HRSA assesses applicants’ effectiveness in responding to the needs of the health center’s patient population, the changing dynamics of its health care environment, and potential or anticipated changes in its funding environment. As part of reviewing the project loan information, HRSA references feasibility studies submitted to the Lender for project strengths and weaknesses, risk exposure, loan repayment, and organizational capacity to sustain the new project site during and beyond the life of the loan.

To assess the project’s viability, HRSA evaluates:

• **Project development.** HRSA assesses whether or not the applicant has site control, or the length of time required to obtain site control by securing ownership or a lease for the property, and if the project site is allowable under the current zoning, regulations, and environmental requirements. HRSA determines if a project development team is in place to manage the project and reviews the proposed timeline for architectural designs and obtaining regulatory approvals. Additionally, HRSA reviews the management team’s experience with completing similar projects within budget.

• **Project funding sources and uses.** HRSA reviews the proposed project development budget and its underlying assumptions to determine if expense listings are missing and if the budget is reasonable given the scope of the proposed capital project. In reviewing the budget, HRSA determines the project’s funding readiness and the applicant’s ability to meet the anticipated obligations by assessing the status of the project funding sources, including contributions by the applicant and other funding sources.

• **Operating and financial projections.** HRSA analyzes the applicant’s financial and operating projections for the project and for the organization in terms of revenue (growth and mix), financial performance (liquidity, expenses, and collections), payer mix, patient utilization, patient costs, staffing, and staffing productivity. Based on the applicant’s historical performance and management’s start-up plans for the project, HRSA analyzes management’s ability to meet its operational and financial projections and carry the proposed debt. These projections will be evaluated for whether or not assumptions are realistic and projections are achievable. HRSA also conducts “stress”
tests to determine project sustainability and the applicant’s debt carrying capacity if the performance were to fall short of the projections.

- **Market demand and environmental landscape.** HRSA reviews evidence of market demand for the project, evaluates market conditions, and determines the nature and depth of the applicant’s community ties to ensure that it understands the community it is proposing to serve and that the community is supportive of both the organization and the proposed project.

- **Implementation capacity.** HRSA assesses the likelihood of management achieving a successful project by reviewing the applicant’s history and management’s implementation plans, including clinician recruitment and patient outreach plans during the on-site review.

5. **On-Site Review**

After HRSA completes its desk review of the application, HRSA will conduct an on-site review to obtain or confirm any information from the Lender’s underwriting, including the loan terms, organizational capacity, project viability, and the operating and financial performance of the applicant. The on-site review provides an opportunity to conduct an in-person visit and tour of the proposed health center medical facility location and interview the applicant’s management, board, and Lender. Additionally, HRSA will be able to confirm its findings in the A/E reasonableness and NEPA/HP review.

6. **Loan Guarantee Conditional Commitment**

HRSA issues a conditional commitment for a guarantee in the form of a Loan Guarantee Commitment Letter for all approved applications. Thereafter, the Lender coordinates the loan closing, including negotiating, drafting, and executing all financing and related documents necessary for closing. HRSA prepares and signs the Loan Guarantee Agreement and Applicant (Borrower)’s Agreement with Guarantor prior to closing. The timeframe between issuance of the Guarantee Commitment Letter and the loan closing is dependent on the Lender and health center meeting all prerequisites before closing.
Chapter 3: Loan Closing, Monitoring, and Administrative and Policy Requirements

Loan Closing

Loan closing is the final step in the financing of capital infrastructure projects. The Lender will negotiate final deal terms with the health center and coordinate the loan closing, including setting the loan closing date and finalizing and executing all financing documentation. HRSA will complete the NEPA/HP review described above prior to closing. While the Lender drafts, negotiates, and executes all financing documentation, HRSA will prepare and execute the Applicant (Borrower)’s Agreement with Guarantor, and the Loan Guarantee Agreement with the health center and Lender prior to closing.

Lender Certification Requirements

Prior to the closing date, the Lender shall furnish to HRSA a loan closing checklist listing all of the documentation required for delivery upon closing, copies of all documents related to the financing, and certify the items below by delivering a Lender’s certification that, at a minimum:

(i) There has been no material change in the loan terms and conditions as set forth in the Loan and Security Agreement and Promissory Note since the issuance of the Loan Guarantee Commitment Letter, unless such changes have been approved by HRSA;

(ii) The loan proceeds will be disbursed for purposes and in amounts consistent with the loan guarantee;

(iii) All required security instruments have been obtained and all Unified Commercial Code (UCC) statements have been filed and recorded;

(iv) Lien priorities are consistent with the requirements of the loan guarantee. No claims or liens of laborers, subcontractors, suppliers of machinery and equipment, or other parties have been or will be filed against the collateral and no suits are pending or threatened that would adversely affect the collateral when the security instruments were filed;

(v) The health center has marketable title to the collateral, subject to the instrument securing the loan to be guaranteed and to any other exceptions approved in writing by HRSA;

(vi) There have been no adverse changes in the health center’s financial condition, and the health center has furnished financial statements prepared for the most recent quarter;

(vii) All payment and performance bonds have been obtained;
All insurance required has been obtained for the health center/property, including but not limited to hazard, flood, liability, worker compensation, and general public liability;

All planned property acquisition has been or will be completed (if applicable);

The project development will be substantially completed in accordance with plans and specifications, and it conforms with applicable federal, state and local codes;

All necessary agreements for construction and architect/engineering have been obtained in accordance with all federal, state, and local requirements;

All legal opinions by counsel have been obtained; and

All environmental reports, inspections, and surveys for the project have been performed in accordance with applicable federal, state, and local requirements.

All items listed above must be completed before HRSA delivers an executed Loan Guarantee Agreement and Applicant (Borrower)’s Agreement with Guarantor. Any delays in finalizing these items prior to closing will result in a change to the closing date. Additionally, any material or adverse changes described in items (i) and (vi) will result in delays to the loan closing.

Issuing the Guarantee

The Loan Guarantee Agreement and Applicant (Borrower)’s Agreement with Guarantor govern the guarantee and outlines the expectations and requirements of the Lender, Borrower, and HRSA throughout the life of the loan. Specifically, the agreements (i) identify the types of defaults; (ii) detail the logistics for presenting HRSA with a guarantee demand; (iii) define modifications or material changes to the terms of the loan; and (iv) document the requirements to provide notice or request approval from the parties to each agreement. Please see the Monitoring section below for information regarding additional rights and responsibilities under LGP.

Monitoring

As part of the LGP, HRSA will conduct ongoing review and monitoring after the loan and the loan guarantee are executed. The originating Lender is responsible for servicing the loan and is required to monitor the C/E or A/R activities and to conduct continuous monitoring during the life of the loan.

HRSA will review information reported on a semi-annual basis by the Lender and health center on the completion of the project and loan data. The applicant’s use of funds must be consistent with the information as set forth in the application package. Any material departure from the approved application information must be pre-approved by HRSA. Further, HRSA will conduct site reviews once every 3 years or as needed to review the applicant’s compliance with the terms of the loan guarantee, as well as to carry out programmatic and financial monitoring.
Reporting Requirements
The applicant will provide to HRSA semi-annual financial statements (within 45 days of quarter close) and independent annual audited financial statements as required under 45 CFR Part 75 (within 120 days of year-end) prepared in accordance with generally accepted accounting principles (GAAP). In addition, HRSA will review a semi-annual progress report, which shall include at a minimum the following information obtained from the applicant and Lender during the period of the loan guarantee:

- Project completion status (percent complete) (during A/R or C/E period only)
- Current Health Center Program operational grant (H80) status (i.e., program compliance, mergers, acquisitions)
- Actual versus projected budget information – sources and uses of funds (during A/R or C/E period only)
- Construction schedule (during A/R or C/E period only)
- Status of compliance with loan terms, conditions, and covenants
- Operating performance
- New Markets Tax Credit (NMTC) loan compliance (if applicable)
- Loan repayments/restructurings
- Loan amounts disbursed to date
- Summary of most recent site visits
- A statement confirming the termination/release of the loan guarantee (once all obligations of the guaranteed loan have been satisfied)

Default Monitoring
As set forth in the relevant loan documents, the Lender and applicant have a set time period to cure defaults triggered by the loan documents (known as a “Cure Period”). The Cure Period begins on the date that HRSA receives notice from the Lender that the applicant has defaulted on the loan (known as a “Default Notice”). During the Cure Period, the Lender is responsible for executing any remedial activities with the applicant and is required to take the steps after the Cure Period to make itself whole prior to calling the guarantee provided by HRSA.

Administrative and Policy Requirements
The following information is general administrative and policy information for applications involving capital infrastructure projects; however, applicants must ensure that their projects comply with all applicable federal, state, and local laws (including but not limited to those described below).
Accessible Design Requirements

On September 15, 2010, the U.S. Department of Justice published revised Americans with Disabilities Act (ADA) regulations that include revised accessibility standards, called the 2010 Standards for Accessible Design, which establish minimum criteria for accessibility in design and construction. The final rules went into effect on March 15, 2011.

The Architectural Barriers Act of 1968, as amended, the Federal Property Management Regulations, and the Uniform Federal Accessibility Standards issued by the General Services Administration (41 CFR 101-19.6, Appendix C) set forth requirements to make facilities designed, built, altered, or leased with federal funds accessible to and usable by the physically handicapped. These regulations also include minimum design standards. The ADA (42 U.S.C. 12101 et seq.) and Architectural Barriers Act accessibility requirements are available online.

Leasehold Improvements

While leasehold improvements are allowed, please note:

a) LGP applicants must obtain and submit with their application a Landlord Letter of Consent from the lessors/property owners, permitting the applicant health center to undertake the proposed project;

b) The length and terms of the lease must allow sufficient value to be realized from the project supported by the guaranteed loan. HRSA will take into account the loan amount, project scope, duration of the lease, the expected life of the facility/improvements, and the use of the facility for guaranteed loan supported purposes. If the term of the guaranteed loan is longer than the current lease term, justification of sufficient value must be provided; and

c) The lease agreement must provide the applicant reasonable control.13

Sustainable Design

The U.S. Department of Health and Human Services (HHS) 2017 Strategic Sustainability Performance Plan commits the Department to leading the way on implementation of sustainable practices and provision of climate-resilient health and human services. In support of this policy, HRSA places a priority on incorporation of sustainable design principles in the design, construction, and operations of facilities that we support through federal funds.

As applicable, LGP applications should include information concerning U.S. Green Building Council recommendations, American Society of Heating Refrigerating and Air Conditioning Engineers (ASHRAE) 90.1 Building Standards for energy efficiency for commercial buildings, or other sustainable standards, and how these may improve the project and benefit the community, patients, and staff.

13 “Reasonable control” is considered the ability to implement the project and realize the benefits of the project without unnecessary demands, such as unreasonably restrictive access and limited control, at the site.
To the greatest extent practicable for a project, applicants must demonstrate incorporation of appropriate sustainability principles and federal green building requirements in the following federal statutes:

- EPA Guiding Principles for Sustainable Federal Buildings
- Executive Order 13834: Efficient Federal Operations
- Energy Independence and Security Act of 2007 (EISA)

For further guidance, applicants may reference:

- EPA Green Building Standards
- Green Guide for Health Care
- The Healthier Hospitals Initiative
- The U.S. Green Buildings Council
- Facility Guidelines Institute
Chapter 4: Other Federal Program Considerations

Other Federal Program Considerations

HRSA recommends that applicants also consider using other federal programs to support their capital infrastructure project needs. The descriptions below provide a brief overview of some of the options available to health centers.

**New Markets Tax Credit (NMTC) Financing**

HRSA may elect to guarantee health center construction and renovation loans made in connection with transactions using new markets tax credits (NMTC). The NMTC Program is authorized under the Community Renewal and Tax Relief Act of 2000, and is jointly administered by the CDFI Fund and the Internal Revenue Service (IRS). NMTC provide a credit against federal income taxes for investors who make Qualified Equity Investments (QEIs) in certified financial intermediaries called Community Development Entities (CDEs) certified by the U.S. Department of the Treasury. CDEs, in turn, use the proceeds of these QEIs to make Qualified Low-Income Community Investments (QLICIs), such as business loans, in low-income communities. In exchange for investing in CDEs, investors claim a tax credit worth 39 percent of their original CDE equity stake, which is claimed over a 7-year period. For further information on the NMTC program and CDEs, please visit the [CDFI Fund website](https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx).

**Opportunity Zones**

HRSA may elect to guarantee loans to support health center projects located in Qualified Opportunity Zones as designated under section 13823 of the [2017 Tax Cuts and Jobs Act](https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx). In order to spur economic development and job creation, investments in these zones provide tax benefits to investors who invest in these communities. Specifically, the Act amends the Internal Revenue Code to allow tax deferral on eligible capital gains by making an appropriate investment in a Qualified Opportunity Fund and meeting other requirements. For more information, including a list of Qualified Opportunity Zones and eligibility criteria, please visit [https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx](https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx).

**U.S. Department of Agriculture (USDA) Community Facilities Guaranteed Loan Program**

USDA’s Community Facilities Guaranteed Loan Program provides federal guarantees to eligible Lenders to help build infrastructure in rural areas. A community facility is defined as “a facility that provides an essential service to the local community for the orderly development of the community in a primarily rural area, and does not include private, commercial or business undertakings.” Under this definition, health center facility projects may qualify if the Lender financing the project is eligible pursuant to specific USDA requirements, including that the
location of the project is in an area defined as “rural,” including cities, villages, townships, and towns (including Federally Recognized Tribal Lands) with no more than 20,000 residents according to the latest U.S. Census data. Lenders may apply for this program; however, this guarantee program is distinct from and cannot be used in connection with the HRSA LGP. For additional information, please visit https://www.rd.usda.gov/programs-services/community-facilities-guaranteed-loan-program.